Financial Services Sector Coordinating Council
for Critical Infrastructure Protection and Homeland Security

Written Statement of

Shawn Johnson
Vice Chairman

On behalf of the

Financial Services Sector Coordinating Council
(FSSCC)

Before the

Subcommittee on Transportation Security and Infrastructure Protection

Of the

Committee on Homeland Security
United States House of Representatives

On

"Partnering with the Private Sector to Secure Critical Infrastructure: Has the Department of Homeland Security Abandoned the Resilience-Based Approach?"

May 14, 2008

Written Statement of Shawn Johnson, Vice Chairman, FSSCC

May 14, 2008

Chairwoman Jackson-Lee, Ranking Member Lungren, and members of the Subcommittee on Transportation Security and Infrastructure, I am Shawn Johnson, Chairman of the Investment Committee of State Street Global Advisors and Vice-Chairman of the Financial Services Sector Coordinating Council (FSSCC). I am pleased to submit this testimony today on behalf of the FSSCC.

I appreciate the Subcommittee's invitation to testify at this hearing, titled "Partnering with the Private Sector to Secure Critical Infrastructure: Has the Department of Homeland Security Abandoned the Resilience-Based Approach?" Given my position with the FSSCC, my comments today focus on the experience of the financial services sector with regard to resilience, and, in particular, resilience related activities in which FSSCC has participated.

The FSSCC was established at the request of the U.S. Department of the Treasury in 2002 in response to Homeland Security Presidential Directive 7, which required sector-specific Federal department and agencies to identify, prioritize, and protect United States critical infrastructure and key resources. We are a private sector coalition of financial services firms and trade associations working to reinforce the financial sector's resilience to terrorist attacks, man-made and natural disasters, cyber attacks, and other threats to the sector's critical infrastructure.

The FSSCC closely interacts with its Sector Specific Agency (SSA), the Department of the Treasury, it public-sector counterpart, the Financial and Banking Information Infrastructure Committee (FBIIC), and the Department of Homeland Security. Membership lists for the FSSCC and the FBIIC are attached.

We also strongly support regional public/private partnerships, such as ChicagoFIRST, DFWfirst, and numerous others. These organizations address homeland security and emergency management issues at the local level, where many catastrophic events are primarily managed.

In general, the U.S. financial services sector has performed well in times of crisis. While events such as the 9/11 attacks have revealed some weaknesses in the resilience of our financial systems, industry and government have responded, and worked cooperatively to address these weaknesses.

Some of the government's resilience activities have been in the form of specific regulatory proposals, such as the issuance of the Interagency White Paper on Sound Practices to Strengthen the Resilience of the U.S. Financial System in 2003 by the Federal Reserve, OCC and SEC.

The White Paper addressed the importance of resilience in financial clearing and settlement activities critical to U.S. financial markets, and is intended to reduce systemic risk created when primary and back-up facilities and staffs are located within the same geographic region. Implementing the requirements of the White Paper has required significant changes in business practices, and substantial investment, by financial services firms --- but the result has been a more resilient U.S. financial system.

Formal rulemaking, however, is not the government's only means of improving the resiliency of our financial infrastructure. For example, the Department of the Treasury has worked with local public/private partnerships to sponsor several resilience exercises, including:

- a pandemic exercise in Chicago in December, 2006 (with ChicagoFIRST),
- a pandemic exercise in San Francisco in May, 2007 (with BARCfirst),
- a radiological attack exercise in Tampa Bay in July, 2007 (with FloridaFIRST) , and
- a hurricane exercise in Alabama in March, 2008 (with Alabama Recovery Coalition for the Financial Sector).

Other similar exercises are being planned, including a terrorist attack simulation involving all of the regional coalitions (through RPC FIRST) in San Francisco this week.

Much of the work of the FSSCC, of which I am currently Vice-Chairman, has also focused on resilience. FSSCC resilience-related activities include:

- **Emergency Credentialing –** The ability of the private sector to obtain security credentials during times of emergency is a critical element to the financial services sector's resiliency. The FSSCC has been involved in efforts to encourage states to adopt credentialing programs, and expansion of the GETS program. The GETS Program allows critical infrastructure operators to gain priority telephone service during a crisis.

- **Cyber Security --** A Cyber Security Summit was held in February, 2008 with information technology leaders from across the public and private sectors, to discuss threats to the financial sector from cyber vectors. The FSSCC and FBIIC have since each launched new cyber security committees, whose mission is to work with the financial services sector to strengthen cyber security and resilience of current and future IT operations.

- **Research and Development ---** The FSSCC and its R&D Committee encourage alignment of research into infrastructure protection through outreach to academic institutions, and programs such as FSSCC SMART, which provides subject matter expertise from financial institutions to research and development organizations.

- **Cross Sector Cooperation ---** FSSCC is an active participant in the Partnership for Critical Infrastucture Security (PCIS), which is dedicated to coordinating cross-sector initiatives to improve the security and safety of U.S. financial infrastructure.

- **Infectious Disease Forum ---** A long standing FSSCC work group is the FSSCC Infectious Disease Forum. The purpose of the Infectious Disease Forum is to develop and communicate information and strategies that FSSCC members and their member organizations may employ to prepare for an avian flu pandemic or other infectious disease outbreak.

These ongoing efforts, and others, demonstrate the FSSCC's strong commitment to resiliency. In addition, all FSSCC members are active with their own resiliency efforts, aimed at their particular segment of the financial services industry segment. These efforts are summarized in FSSCC's annual report, which can be found on the FSSCC web site (https://www.fsscc.org/fsscc/reports/2007/annual_report_2007.pdf).

I'd like to conclude my testimony today by describing one of the largest financial services industry resilience exercises to date, the FBIIC/FSSCC Pandemic Flu Exercise of 2007.

This exercise, conducted in Fall, 2007, simulated a pandemic flu impacting the financial services sector, and was intended to:

- Enhance the understanding of systemic risks to the financial sector;
- Provide an opportunity for firms to examine the effectiveness of their pandemic plans; and
- Explore the effects of a pandemic flu on other crucial infrastructures impacting the financial services sector.

The exercise was a public/private partnership, organized by the FBIIC, the FSSCC, and the Securities Industry and Financial Markets Association (SIFMA), the trade association representing the securities industry.

By all accounts, the execution of the exercise was a success. More than 2,700 financial organizations participated. Participation was voluntary, free of cost, and open to all organizations within the U.S. financial sector. Results were aggregated, with anonymity provided to participating institutions. The exercise was intended to simulate the medical, financial, and societal impacts of a pandemic flu, and gather information about how financial institutions were able to react to such scenarios. At the height of the exercise, for example, absentee rates in some cases reached 49%, a level sufficient to stress even the best contingency planning efforts.

The performance of the financial sector under the conditions simulated by the exercise was laudable, but not perfect. In general, it appeared that while there would have been significant impacts to the financial services sector, it would have continued to cope and operate.

Perhaps more important than the immediate results of the exercise, however, is the reaction of the participants:

- 99% of participants found the exercise useful in assessing their organizations business planning needs;
- 97% of participants said the exercise allowed their organization to identify critical dependencies, gaps, and seams that warrant additional attention; and
- 91% said their organization planned to initiated additional all-hazard plan refinements based upon lessons learned during the exercise.

The After Action Report, issued in January, 2008, provides considerable detail on the results of the exercise, both in aggregate and by industry segment, as well as numerous illustrations of possible opportunities for further improvement, for both the public and private sector. One such area for improvement is in the area of regulatory relief. Discussions between the private sector and the regulators continue regarding possible regulatory relief during a pandemic. The industry recently started developing an internet based application to facilitate the collection of information to better gauge the health of the sector.

Overall, the pandemic exercise provides a good example of the potential benefit of strong public/private cooperation and collaboration. While continuity and resilience planning are certainly key regulatory and enforcement issues, it is clear to me as a representative of the private sector that the quality of data obtained was considerably improved by the cooperative, and anonymous, nature of the exercise. As a result, both the private and public sectors were able to obtain insights that would have been difficult or impossible to obtain through standard regulatory channels.

Once again, thank you for providing me the opportunity to testify on behalf of the FSSCC. I would be pleased to answer any questions.

APPENDIX

FSSCC Members

American Bankers Association
American Council of Life Insurers
American Insurance Association
American Society for Industrial Security (ASIS) International
BAI
BITS/The Financial Services Roundtable
ChicagoFIRST
Chicago Mercantile Exchange
The Clearing House
CLS Group
Consumer Bankers Association
Credit Union National Association
The Depository Trust & Clearing Corporation (DTCC)
Fannie Mae
Financial Information Forum
Financial Services Information Sharing and Analysis Center (FS-ISAC)
Financial Services Technology Consortium (FSTC)
Freddie Mac
Futures Industry Association
ICE Futures U.S.
Independent Community Bankers of America
Investment Company Institute
Managed Funds Association
The NASDAQ Stock Market, Inc.
National Armored Car Association
National Association of Federal Credit Unions
National Association of Securities Dealers (NASD)
National Futures Association
NACHA — The Electronic Payments Association
The Options Clearing Corporation
Securities Industry Automation Corporation (SIAC)
Securities Industry and Financial Markets Association (SIFMA)
State Street Global Advisors
VISA USA Inc.

FBIIC Members

American Council of State Savings Supervisors
Commodity Futures Trading Commission
Conference of State Bank Supervisors
Department of the Treasury
Farm Credit Administration
Federal Deposit Insurance Corp
Federal Housing Finance Board
Federal Reserve Bank of New York
Federal Reserve Board
National Association of Insurance Commissioners
National Association of State Credit Union Supervisors
National Credit Union Adminsitration
North American Securities Administrators Association
Office of the Comptroller of the Currency
Office of Federal Housing Enterprise Oversight
Office of Thrift Supervision
Securities and Exchange Commission
Securities Investor Protection Corporation